MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 402: SPECIALISED ACCOUNTING

DATE: **TIME:**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

(a) With reference to a bill of exchange write a short notes inthe following
  i Drawer
  ii noting charge
  iii Endorser (6 marks)

(b) PQ ltd sold 60,000 10% loan stock of Expo limited to AB ltd on 1st june 2008 at 90 ex interest.This stock was purchased by pq limited on 31st December 2007 at cost of 52,000.interest is payable half yeary on 30th june and 31st December. (6 marks)

(c) Briefly explain the following terms as used in accounting for returnable containers:
  (i) Charge-out price (2 marks)
  (ii) Credit-back price (2 marks)
  (iii) Hire profit (2 marks)

(d) On 1st September 2008 james of Nairobi consigned to david of London ,50 bales of merchandise. the commission 2 ½ %

On 31st December 2008, David completed sales of the whole of this merchandise realising sh 40,000 .He settled the net proceeds by a bill at three months which was dully met on maturity.

Required:

Write the ledger accounts in the books of james torecord the above transactions.

(8 marks)

(c) Distinguish between sales system and stock system in the respect of accounting for hire purchase sales. (4 marks)

QUESTION TWO (20 MARKS)

ABC Ltd. Obtained a 20-year lease of land from GHL Ltd. Effective from 1 January 1999, for the purposes of extracting marble. The lease provided for the payment of a royalty of Sh.100 for every ton of marble extracted with a minimum rent of Sh.200,000 per year, payable annually on the 31 March of the year following that to which the payment relates. Provision was made for short-workings to be recouped out of subsequent excess workings during the fist four years.

ABC Ltd. Granted a sub-lease of one third of the area of land in question to XYZ Ltd. For 12 years effective from 1 January 2000. XYZ Ltd. Was to pay a royalty of Sh.125 per ton of marble extracted merging into a minimum rent of Sh.80,000 per year. This royalty was to be payable on the 31 January following the year end to which the royalty related. The sub-lease provided for short-workings to be recouped out of any subsequent excess workings within two years of the end of the year in which the short-workings occurred. The financial years of ABC Ltd., GHL Ltd. And XYZ Ltd. End on 31 December.

The quantities of marble extracted were as follows:

Year ended 31 December	**ABC Ltd.**	**XYZ Ltd.**
	Tons	**Tons**
1999	1,200	-
2000	1,300	560
2001	1,700	680
2002	1,800	660
2003	2,000	720

Required:

The following accounts in the books of ABC Ltd. For each of the five years ended 31 December 1999, 2000, 2001, 2002 and 2003:

(a) Royalties payable account (4 marks)
(b) GHL Ltd. Account (4 marks)
(c) Royalties receivable account (4 marks)
(d) Short-workings accounts. (4 marks)
(e) XYZ Ltd. Account. (4 marks)

QUESTION THREE (20 MARKS)

During the month of March 2017, a manufacturing firm advertised in the local press that it had bonded goods which were to be auctioned. On reading the advertisement, Mr Michael Karanja and Mr. Joseph Abuya agreed to pool their resources together and participate in the auction. They agreed to share the joint venture profits and losses. Karanja and Abuya in the ration of 3:2 respectively.

Karanja sent Abuya a cheque of Sh. 2,400,000 on 15 March 2017 to provide him with funds for Karanja's participation in the joint venture

karanja and Abuya successfully bought goods and managed to sell all of the goods purchased by the end of April 2017. Their cash transactions appeared as follows:

	Karanja Sh.	**Abuya Sh.**
Sales	3,840,000	2,520,000
Travelling expenses	392,400	555,600
Advertising	123,600	109,200
City Council charges	102,000	84,000
Salaries and wages	57,600	78,100
Sundry expenses	70,800	34,800
Purchases	1,920,000	1,320,000
Telephone expenses	33,700	28,900
Insurance	12,300	11,200
Transportation of goods	157,000	121,500

Settlement between Karanja and Abuya was done by cheque on 30 April 2017.

Required:

(a) Memorandum joint venture account. (6 marks)

(b) Joint Venture account with Abuya in Karanja's ledger (7 marks)

(c) Joint Venture account with Karanja in Abuya's ledger (7 marks)

QUESTION FOUR (20 MARKS)

(a) (i) What is the basic principal involved in accounting for hire purchases transaction?

(ii) Describe how that principle is accommodated by two of the accounting methods commonly used to account for hire purchase transactions. (6 marks)

(b) A sold goods to the value of sh 50,000 to B taking a bill at three months therefore A discounted the bill at 10% per annum with his bank.On maturity ,the bill wasreturned by the bank dishonoured with sh 500 noting charges.B paid sh 20,000 and the noting charges and gave onother bill at three months for sh 30000 and 10% interest but before maturity he has become bankrupt ultimately paid to his credators 80%.

Required

Record the above transaction in the journal entries in the books of A and prepare B account in the books of A

QUESTION FIVE (20 MARKS)

(a) Briefly explain the following terms as used in accounting for investments

- (i) cum div, purchase
- (ii) Ex div, purchase
- (iii) cum div, sales
- (iv) Ex div , sales (4 marks)

(b) Jiko Ltd. supplies cooking gas in 10 kilogramme cylinders which are returnable after use. The cylinders are purchased at Sh. 500 each and are valued at Sh. 400 for stocktaking purposes.

On issue of the cylinders to customers, a deposit of Sh.600 is paid per cylinder of which Sh.520 is refunded to customers on return of a cylinder within a period of three months.

On 1 January 2016, there were 2,000 cylinders in the company's warehouse and 8,000 cylinders in the hands of customers in respect of which the return period had not expired.

During the year ended 31 December 2016, the company purchased 6,000 new cylinders at the normal purchase price but returned 200 cylinders to the supplier due to defects detected on inspection. A credit of Sh. 100,000 was given by the supplier for the returned cylinders. For the year ended 31 December 2016, customers were issued with 72,000 cylinders and they returned 68,000 cylinders. As at 31 December 2016, the customers held 10,000 cylinders which had been issued within the previous three months.

For safety purposes the cylinder returned by customers were thoroughly inspected and repaired for any damages or defects. On average, Sh. 40 was spent as inspection and repair costs per cylinder returned by a customer.

Due to wear and tear: 250 cylinders were confirmed to be unsafe for use. These were sold to a Scrap metal dealer at Sh. 180 each.

On 31 December 2016, stocktaking revealed that there were only 3,500 cylinders in the warehouse. The deficit was treated as a loss.

Required:

(i) Containers stock account as at 31 December 2016. (5 marks)

(ii) Containers suspense account as at 31 December 2016. (6 marks)

(iii) Containers profit and loss account for the year ended 31 December 2016. (5 marks)